

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 AGR-05 INT-05 PRS-01 L-03 H-02 FEA-01

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 7158

INFO USDEL MTN GENEVA

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

AMCONSUL MELBOURNE

AMCONSUL SYDNEY

AMCONSUL BRISBANE BY POUCH

AMCONSUL PERTH BY POUCH

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E.O. 11652: NA

TAGS: EFIN, AS

SUBJ: DEVALUATION: FEDERAL TREASURER QUASHES RUMORS

REF: CANBERRA 8409

1. SUMMARY: AUSTRALIAN FEDERAL TREASURER PHILLIPPERC LYNCH RELEASED STATEMENT ON JANUARY 4 FIRMLY DENYING ANY INTENTION ON PART OF NEWLY-ELECTED LIBERAL-NATIONAL COUNTRY PARTY COALITION GOVERNMENT TO DEVALUE THE AUSTRALIAN DOLLAR. HE THUS MADE STRONG BID TO END WEEKS OF SPECULATION THAT, ACCORDING TO PRESS, LED TO \$A 600 MILLION RUNDOWN DURING MONTH OF DECEMBER IN AUSTRALIA.
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LIAN INTERNATIONAL RESERVES. END SUMMARY.

2. LYNCH SAID THERE WAS "NO NEED OR REASON" FOR DEVALUATION, WHICH WAS NOT PART OF GOVERNMENT'S ECONOMIC STRATEGY. SUCH A MOVE, HE SAID, WOULD BE DIRECTLY CONTRARY TO GOVERNMENT'S PRINCIPAL ECONOMIC POLICY OBJECTIVE OF BREAKING INFLATIONARY FORCES AND, IN PARTICULAR, INFLATIONARY EXPECTATIONS. HE SAID HIS STATEMENT HAD FULL APPROVAL AND ENDORSEMENT OF BOTH PRIME MINISTER FRASER AND DEPUTY PRIME MINISTER AND LEADER OF NATIONAL-COUNTRY PARTY ANTHONY (N-CP WAS REPORTEDLY PRINCIPAL SOURCE OF PRESSURES FOR DEVALUATION.)

3. LYNCH ALSO CITED PRELIMINARY 1975 TRADE RESULTS AS SUPPORT FOR NO-DEVALUATION POLICY. HE SAID EXPORTS HAD GROWN \$A 1300 MILLION OR 17 PERCENT DURING YEAR WHILE IMPORTS, FOLLOWING SHARP FALL FIRST HALF OF 1975, HAD ACTUALLY DECLINED BY \$A180 MILLION. AS A RESULT, AUSTRALIA'S MERCHANDISE SURPLUS IN 1975 TOTALED \$A1500 MILLION COMPARED WITH ONLY \$A56 MILLION PREVIOUS YEAR. LYNCH CONCEDED CAPITAL MOVEMENTS HAD NOT REFLECTED THIS UNDERLYING STRENGTH LARGELY DUE TO RECENT PRECAUTIONARY AND SPECULATIVE MOVEMENTS. SIZABLE RECENT OUTFLOW IN ANY EVENT WAS REGARDED AS DESIRABLE COUNTERBALANCE TO UNWANTED GROWTH OF LIQUIDITY STEMMING FROM BUDGET DEFECIT POLICY OF PREVIOUS LABOR GOVERNMENT.

4. COMMENT: FOLLOWING RECENT ELECTION SOME CONCERN AROSE THAT PRIME MINISTER FRASER'S STRONG CAMPAIGN COMMITMENT TO ECONOMIC EXPANSION AND "RESTORATION OF COMPETIVENESS" OF AUSTRALIAN INDUSTRY MIGHT CAUSE HIM TO REGARD DEVALUATION AS ONE MEANS OF DELIVERING ON PROMISE. LYNCH STATEMENT IS ENCOURAGING INDICATION THAT SUCH EASY EXPEDIENTS ARE NOT LIGHTLY TO BE RESORTED TO BY NEW GOVERNMENT. IT IS ALSO INTERESTING TO NOTE FACT HE REFERS TO GOVERNMENT'S PRINCIPAL ECONOMIC POLICY OBJECTIVE AS CONTROL OF INFLATION IN CONTRAST TO THRUST OF FRASER CAMPAIGN THAT NUMBER ONE PRIORITY IS REVIVAL OF ECONOMIC ACTIVITY AND PROVISION OF JOBS. LYNCH STATEMENT PRESUMABLY REFLECTS ADVICE OF TREASURY BUREAUCRACY.

5. ALTHOUGH TRADE SURPLUS FIGURES ADVANCED BY LYNCH IMPRESSIVE, THERE ARE NEVERTHELESS REASONS TO WATCH FUTURE AUSTRALIAN FOREIGN TRADE TRENDS ATTENTIVELY. AUSTRALIAN EXPORTS SENSITIVE TO LEVEL OF JAPANESE BUYING WHICH CURRENTLY MAY BE LAGGING WITH SLOW PACE OF JAPANESE RECOVERY. AT SAME TIME AUSTRALIAN IMPORTS SHOWING SLOW BUT STEADY INCREASE WHICH COULD ACCELERATE IF AUSTRALIAN EXPANSION PROCEEDS AT PACE TO WHICH COALITION GOVERNMENT COMMITTED. RESULT COULD WELL BE SEVERE PRESSURE ON AUSTRALIAN RESERVES-TO-IMPORTS RATION WITHIN YEAR. END SUMMARY.

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TRALIAN FOREIGN TRADE TRENDS ATTENTIVELY. AUSTRALIAN EXPORTS SENSITIVE TO LEVEL OF JAPANESE BUYING WHICH CURRENTLY MAY BE LAGGING WITH SLOW PACE OF JAPANESE RECOVERY. AT SAME TIME AUSTRALIAN IMPORTS SHOWING SLOW BUT STEADY INCREASE WHICH COULD ACCELERATE IF AUSTRALIAN EXPANSION PROCEEDS AT PACE TO WHICH COALITION GOVERNMENT COMMITTED. RESULT COULD WELL BE SEVERE PRESSURE ON AUSTRALIAN RESERVES-TO-IMPORTS RATION WITHIN YEAR. END SUMMARY.

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